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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002444

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SUBJECT: KMT ECONOMIC ADVISOR SEES SIGNS OF NARROWING
MA-HSIEH GAP ON CROSS-STRAIT POLICY

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Classified By: Robert S. Wang, AIT Deputy Director, for reasons 1.4 (b)
and (d).

11. (U) This cable is one in a series on the Taiwan
presidential candidates' economic policies and advisors.

12. (C) SUMMARY. Chen Tai-jy, an academic who informally
advises KMT vice presidential candidate Vincent Siew on
economic policy, believes both presidential candidates have
yet to articulate clear economic platforms. Despite
widespread perceptions, he maintains that DPP Frank Hsieh's
relatively liberal cross-strait economic agenda may be quite
close to that of the KMT's Ma Ying-jeou. Chen criticizes Chen
administration financial policy for encouraging excess
liquidity in the Taiwan banking sector, thereby encouraging
capital outflows and increasing inflationary pressures. END
SUMMARY.

13. (C) In a November 5 meeting with AIT economic chief, Chen
explained that he has no official advisory role in the KMT
campaign, but informally advises vice presidential candidate
Vincent Siew (Hsiao Wan-chang), with whom he has a
longstanding association. In Chen's view, neither the Ma nor
Hsieh campaigns has articulated a clear economic policy
platform. Although the campaigns' major policy differences
appear to lie in cross-strait economic integration, he
observed, the Ma campaign is de-emphasizing cross-strait
issues for fear of being tarred as pro-China by the
electorate. Chen believes Frank Hsieh is much more liberal
than Chen Shui-bian on the issue of fostering cross-strait
economic integration, to the point that in reality there may
be relatively little difference between Ma and Hsieh on that
issue. Chen added, however, that Ma would be better placed
than Hsieh to negotiate with the PRC on economic integration
measures.

14. (C) Noting that Hsieh earlier in the day announced his
support for easing the cap on Taiwan firms' investment in
China and allowing Taiwan investors a grace period for
reporting previously reconducted mainland investments, Chen

stated the DPP is finally responding to the business community's concerns that limits on cross-Strait economic ties are hurting Taiwan's competitiveness. According to Chen, Taiwan's disproportionately high number of small- and medium-sized enterprises may be thwarting efforts to improve the economy's international competitiveness, as many smaller firms may simply not have the resources to enter China or other major external markets. On other cross-Strait issues, Chen said he supported allowing Chinese banks to establish branch offices in Taiwan.

15. (C) In Chen's view, the KMT and the DPP have especially large differences on financial policy. He criticized the Chen administration for placing too much emphasis on bank consolidation, rather than increasing financial sector competitiveness. The Chen administration's consolidation policy has left banks awash in liquidity they are unable to use, he argued, and has increased inflationary risks while prompting excess liquidity to flow abroad in search of higher returns, rather than staying in Taiwan for domestic investment. He bemoaned the fact that around 40 Taiwan companies are now listed on the Hong Kong stock exchange, rather than its Taipei equivalent. Hsieh, asserted Chen, knows that the current administration's financial policies are ineffective, but is uncertain how to move ahead.

16. (C) COMMENT. Chen does not seem to be at the center of the Ma/Hsieh economic policy team, and adopted a relatively detached perspective that came across as more academic than political. END COMMENT.

Biographic data

17. (SBU) Chen Tai-jy is in his 50s, and is originally from the Taipei area. He received a bachelor's degree in

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electrical engineering from National Taiwan University in 1975, and a doctorate in economics from Pennsylvania State University in 1983. In 1983-85, he was an assistant professor at the University of Mississippi Department of Economics. He returned to Taiwan in 1985-86 as a research fellow at the Chong-hua Institute for Economic Research (CIER), and then spent a year as an assistant professor at the Drexel University Department of Economics. After returning to Taiwan in 1987, he held various research positions at CIER, and served as CIER's president from 2003 through 2005. Since 1995, Chen has also been a professor at the National Taiwan University Department of Economics.

18. (SBU) Chen speaks very good English. He has two children, the elder of whom graduated from Ohio State University in 2005, and the younger of whom graduated from Pennsylvania State University in 2007.

YOUNG